VIRIDIEN Q3 2024 Financial Results

Thursday, 31st October 2024

Introduction

Jean Baptiste Roussille

VP, Corporate Finance and Investor Relations, Viridien

Welcome

I am Jean Baptiste Roussille, in charge of Corporate Finance and Investor Relations. As has just been said, we are in Paris today with Sophie Zurquiyah, our CEO, and Jerome Serve, our CFO.

They will provide an overview of the results as well as comments on our outlook. And following the overview of the quarter, we will be pleased to take your questions, obviously.

Now I leave you with Sophie.

Q3 & 9M 2024 Operational Overview

Sophie Zurquiyah

CEO, Viridien

Key segment financial highlights

Thank you Jean Baptiste. Welcome, everyone, and thank you for joining the presentation of Viridien's Q3 2024 financial results.

The macro environment remains volatile, with oil prices fluctuating due to geopolitical tensions and oversupply. However, our clients have maintained a stable spending pattern within our sector, driven by long-term offshore investments. We are also seeing a gradual pickup in exploration efforts, particularly among European IOCs, which had previously reduced their spending during the COVID-19 pandemic. These clients continue to prioritise efficiency and cost discipline.

Our third quarter has seen another strong growth at Geoscience, which confirms its strengths and ability to drive the Group's performance. Earth Data revenue was lower than expected, with some cut off effects, with continued trend of high pre-funding and flat after sales.

Sensing and Monitoring, SMO, as anticipated, experienced a low level of activity and a shift in deliveries to Q4. Given our quarterly volatility, we believe that the year-to-date performance is a more accurate indicator of trends and overall performance. Our nine-month revenue were nearly flat at $778 million, with Geoscience and Earth Data showing strong growth while Sensing and Monitoring declined. This is in line with our revenue guidance at the beginning of the year.

DDE Segment: Key business indicators

Our nine-month segment adjusted EBITDA increased by 7% year-over-year to $298 million, driven by DDE's growth, partially offset by SMO's decline. Net cash flow improved significantly to $34 million, a major improvement from last year.

Our focus on cost control and working capital management is starting to yield results. Our performance reflects our focus on high value activities and operational efficiency, despite $37 million penalty fee related to vessel commitments which impacted our EBITDA. I would like to remind you that this contract will expire in early January, which we expect to have a significant positive impact on both EBITDA and cash flow generation.

Now going on to slide six, let us review the performance of our segments and businesses. DDE segment revenue was solid at $187 million, quasi stable year-on-year, with Geoscience growth balancing Earth Data decline. Despite the less favourable mix, adjusted EBITDA grew 5%, thanks to strong Geoscience performance.

Geoscience: Key business indicators

Going on to slide seven for Geoscience. For Geoscience, specifically, Q3 segment revenue increased 32% to $103 million, in line with Q2 2024, which was the strongest quarter since Q4 2015. Our backlog is continuing to strengthen, driven in part by an increase in average project size. This trend is consistent with the growing number of new offshore field developments that we see as the offshore cycle unfolds and demand for high-end imaging solution increases.

Meanwhile, our constant focus on efficiency has yielded further improvements in productivity by leveraging AI and overall workflow output optimisation, that includes the optimisation of our highly specialised HPC infrastructure algorithm, software and workload. We have continued to strengthen production per head, demonstrating our commitment to delivering the highest quality results while maintaining an efficient operation.

Geoscience: Q3 operational highlights

Looking now at slide eight for Geoscience operational highlights. We are pleased to report a significant increase in order intake in Q3, driven in part by strong demand from the Middle East, where our cutting edge technologies are making a tangible impact. Our land data solutions have reached a new level of sophistication, enabling us to accurately image small features and extract reservoir properties that were previously deemed impossible.

These breakthroughs not only save our clients' millions of dollars in drilling costs and increase success rates, but also substantially reduce safety risks. We have had more than 30 years of presence in the region with our dedicated HPC On-Prem Imaging Centre in Oman and an open HPC Cloud Imaging Centre in Abu Dhabi.

Recently, we have expanded our footprint into additional countries, further solidifying our position in the market. The Gulf of Mexico is also gaining attention again, from a growing number of IOCs and independents, who are drawn to the region's vast opportunities for near field exploration and new frontier plays. We are well positioned to support these efforts with our advanced imaging solutions.

In our new businesses, we have secured new contracts in the mining industry and for carbon storage, bringing our total number of ongoing projects to nine. High quality imaging is essential for carbon storage, and we've already been able to clearly demonstrate the value of our solutions in this area.

In one notable project, our imaging technology helped identify a previously undetected fault, which could have compromised the long term storage of carbon. This highlights the critical role that our expertise plays in ensuring the viability, safety, and efficacy of carbon storage operations.

Earth Data: Key business indicators

Turning onto slide nine for Earth Data. Earth Data segment revenue of $83 million was down 22% compared to last year. However, looking at year-to-date numbers, revenue was up 8%, driven by higher prefunding revenue. Our after sales for the quarter came in at $26 million, impacted by a significant deal that was delayed to Q4 and has now been booked.

On a year-over-year basis after sales trends have been relatively flat, reflecting limited bid rounds and our clients continued cautious and disciplined approach. Meanwhile, multi-client CAPEX increased to $83 million, driven by the ramp up of our Laconia project in the Gulf of Mexico, where we saw good progress on securing pre-funding during the quarter ahead of our original plan.

Earth Data: Q3 operational highlights

Turning to slide 10 for EDA operational highlights. Our Laconia project is progressing well, with 40% of the acquisition already complete. In Brazil, our Viridien data covers all 14 blocks that are proposed for 2025 pre-salt bid round. With its improved terms and conditions, including the removal of drilling commitments and our coverage, we are positioned very well to capitalise on this opportunity.

In Norway, we successfully completed the acquisition of our latest survey, further expanding our coverage in the region. This marks the 11th consecutive year we acquired data in the North Viking Graben area, resulting in a comprehensive and high quality data set that has facilitated dozens of discoveries.

Building on the success, we introduced no data to complement our streamer data, which, when combined with our high end imaging, can provide greater detail in complex areas. We see strong industry support for these programmes.

Notably, our data coverage also include blocks designated for carbon storage, positioning us well to drive new revenue growth in this emerging business area. We are actively pursuing opportunities in carbon storage, with two well-funded re-imaging projects underway in the North Sea and screening studies completed in the Gulf of Mexico and Asia.

Sensing & Monitoring segment: Key business indicators

Turning now to slide 11 on Sensing and Monitoring. Our Q3 SMO segment revenue was $59 million, a decline from the unusually strong Q3 2023 that saw high sales for large surveys in North Africa and Middle East. As communicated earlier, we expect to see quarter-to-quarter volatility in SMO, mainly based on large crew activity. And we are confident that Q4 will be strong, driven in part by orders that were delayed from Q3.

We were quite encouraged to see SMO's adjusted EBITDA remain positive this quarter, as this reflects the early benefits of our adaptation plans and cost reduction efforts. Going forward, SMO will be well positioned for improved profitability through the cycles.

Sensing & Monitoring: Q3 operational highlights

Going on to slide 12 for SMO operational highlights. Our third quarter revenue was primarily driven by land systems and a notable contribution from our new businesses. Although the quarter was weaker than expected, it was largely due to the significant shift in deliveries to the fourth quarter.

We did see several deliveries during the quarter, including WiNG land notes to Europe and the US, both for our traditional markets and for geothermal applications. The 508 X-Tech systems and Nomad vibrators to South Asia, and the ongoing deployment of our TPS low frequency broadband source in the Gulf of Mexico.

The SMO adaptation plan remains on track to achieve expected cost reductions and operational flexibility. We have completed the right-sizing of our industrial facilities in Houston and Singapore, and we have initiated a restructuring plan in France. We are also making good progress on optimising our working capital.

Our new businesses in SMO continue to grow and show promise, accounting for 17% of SMO revenue year-to-date, up from 11% in 2023. We made several deliveries of our S-scan geotechnical monitoring solutions with application in mines in Africa and railways in Middle East.

Additionally, our Marlin Solution for ports logistics management was successfully deployed in Latin America. Going forward, SMO should be well positioned both for growth and improved profitability through the cycles.

Let me now hand the floor out to Jerome for comments on our financials.

Q3 & 9M 2024 Financial Results & Roadmap

Jerome Serve

CFO, Viridien

Introduction

Thank you, Sophie. Good morning and good afternoon, ladies and gentlemen. As Sophie talked in details about Q3, for each segment, I will focus on the nine-month performance.

Let us start with the P&L on slide 14. Although our nine-month revenues are 3% down versus last year at $778 million, the EBITDA is up 7%, reaching close to $300 million. This is driven by a quite different business mix versus last year. SMO revenues are indeed down 31% over the first nine months, impacted by the absence of mega crews like we had in 2023.

On the opposite, DDE revenues were up 16%, mainly coming from a very strong performance of our Geoscience.

Two points worth highlighting at this stage. First, on the SMO side, given the order intake we see today, we expect Q4 revenues higher than those in the first three quarters. Also, and despite a very low Q3 at $60 million revenues, the business did remain EBITDA breakeven, showing the first benefits of our transformation plan.

Second point on EDA, where the business was still negatively impacted by $36 million of penalty fees from our vessel commitments with Shearwater. This figure will grow again during Q4 to reach a higher level than last year. But fortunately, January 2025 will mark the end of this contract.

7% YTD EBITDA improvement

Moving on to the P&L, our adjusted segment operating income for the nine months was $84 million, down 32%. Although EBITDA was up 7%, this is mainly explained by the fact that in

Q2 last year, we did record a positive $37 million net book value adjustment following the completion of three multi-client surveys, and we did not have such one-off this year.

Finally, our Group net income ended up at $32 million for the nine months.

YTD Positive Net Cash Flow at $34M

Moving on to the Group cash flow on slide 15. Our net cash flow for the nine months reached $34 million, while it was negative $15 million last year over the same period. This is driven by a higher EBITDA as well as positive variation in working capital management, mainly coming from SMO. Indeed, in 2023, we had the build-up of receivables linked to the Saudi Mega Crew, while in 2024 further inventory tightening initiated as part of the transformation plan.

Regarding the increase in CAPEX, as indicated during our Q2 results, this is due to the Laconia project in the Gulf of Mexico, but is balanced by the settlement with struck with ONGC earlier this year.

Balance Sheet

Before I go to the balance sheet on slide 16, I would like to update you on the $30 million bond buyback programme that we announced back in March. The good news is that we are now almost completed with $25 million repurchase as of today, out of which only $11 million are showing by end of Q3. Also, it is worth noting that the bond prices has drastically improved over the last 12 months, coming from below 90 to close to par these days, demonstrating the confidence of the credit market in our business and our ability to refinance close to current conditions.

Regarding our liquidity, as of 24th September, it stood at $442 million, and our gross debt after IFRS 16 was at $1,345 million. The resulting net debt after IFRS 16 was still close to $1 billion.

2024-2025 Financial Roadmap

On the financial roadmap, slide 17. I am pleased to report that we continued to tick the boxes one after the other with the tightening of our working capital, resulting in a minimum cash required to run the business of less than $100 million, an improved credit rating outside the CCC zone, a successful extension of our RCF with a better balance between commercial and investment banks, and the $30 million bond buyback I was referring to earlier on.

The next milestone is then the $100 million net cash flow generation target for next year, which we see no reason to adjust considering this year's achievements and current outlook.

In this context, we remain confident in our objective to refinance our debt, most likely in 2025. But in any case, before 26th March. As previously mentioned, we will take the opportunity of this refi to use our cash and start deleveraging the Group by raising a new gross debt below $1 billion.

I am now handing back the floor to Sophie.

Outlook

Sophie Zurquiyah

CFO, Viridien

2024 financial objectives

Thank you, Jerome. As a summary, I can say that this quarter highlights the progress that we have made along a strategic roadmap which is focused on technology leadership, new businesses growth and cash flow generation. I am particularly pleased with Geosciences performance, which is leveraging its clear differentiation with best-in-class imaging technology and specialised HPC computing power to achieve a record high order book.

In Earth Data, our projects are attracting good pre-funding and we are well positioned to benefit from upcoming lease rounds and carbon storage market development.

We expect SMO will continue to experience market volatility, mainly based on the timing and activity of very large seismic crews. Our adaptation plan is progressing well, which will ensure profitability through the cycles, and volatility will be further attenuated by the growth of our new businesses outside oil and gas.

Going forward, we expect to see progressively strengthening performance in SMO. Overall, 2024 is tracking our expectations, and we are in good position to meet our 2024 financial objectives.

Our technology, leadership, new business expansion and financial discipline bring us confidence for 2025 and beyond.

Thank you, and I now look forward to taking your questions.

Q&A

Kevin Roger (Kepler Cheuvreux): Good evening. Thanks for taking the question. I have three, if I may. The first one is on Laconia. You mentioned during the remarks that the pre-funding on the project has relatively well progressed this quarter and maybe a bit ahead of the expectations. So can you give us some colour on where we stand now in terms of percentage for the pre-funding of the survey for this one, please?

The second one, if we focus on the late sales, late sales remained quite very low this quarter. And year-to-date, we are still below $100 million. I was wondering if you can provide a bit of colour on what you expect for Q4, what you see in terms of commercial opportunities, etc. because maybe this is where the risks are related to the full year guidance to get a very strong Q4 late sales.

And the last one, maybe just a technical one on Sercel. Previous quarter, you mentioned the restructuring charges between the adjusted EBITDA. Did we saw anything this quarter in terms of restructuring charges at Sercel, please?

Sophie Zurquiyah: On Laconia, typically we do not disclose the ramp up of pre-funding project by project. But knowing that Laconia is a big chunk of our Q3 spend, you kind of get an idea. But in general, why we are saying that we are ahead of the game and the pre-funding of Laconia is that we plan for when clients come in. There was a client that we were planning for next year that's come in earlier, which is going to bring cash forward. But we are still tracking to our cash breakeven point by the end of next year, which is actually quite an achievement compared to the historical way we ramp up the project. And this one, we played it particularly safe because it is such a large project.

But if you look at the numbers, the impact of Laconia on the Q3 number and you will see them on the Q4 number, but we are tracking really well. So that is for Laconia.

On the late sales, it is a fair point. It is better to look at the year-to-date numbers. It gives you a better view, and it is kind of flattish. But directionally, when we plan for the year, we thought, okay, this is going to be more or less flat from last year with some transfer fees that we did not have last year.

So we do feel reasonably comfortable with our Q4 numbers. Now, of course, as you know, it is never done until the last days of December. And we did mention in the Q3 numbers that there was a deal already that shifted into Q4, which is de-risking a little bit those after sales of Q4.

So compared to perhaps a year ago, we have better identified deals to go after. It does not mean that we will close all of these deals, but we will feel like we have more visibility than we would normally we have had in the last few years, if that helps you.

And the third question is, I will leave it to Jerome.

Jerome Serve: Yes. In terms of restructuring provision for Sercel, the one which are in our books only relates to Singapore and the Houston downsizing and is quite limited at this stage, $3 million to $4 million. You do not see it in the adjusted. I mean, you see the adjusted very close to the normal EBITDA because you have some positive one-off, which offset this provision.

Regarding the restructuring plan in France, given it is not a PSU but a voluntary redundancy plan, I mean, we have a view on who will go. But to be able to provision, we need to have the exact name. And then I suspect by end of Q4, we should be able to provision.

In terms of amount, we should be in the range that I already provided in Q2 below $15 million, I would say.

Mick Pickup (Barclays): I do not want you to give guidance for next year, but I think there has been a bit of panic around this quarter with oil prices coming back, and some commentators worried that we have seen the end of the cycle. And not so much for you, but for some of your peers. I think there is numbers appearing in consensus where investment is down next year are really down quite sharply on the multi-client side. So can you just say what has been happening with your clients? What they are saying about you are still talking about a gradual pick up in exploration. Just wondering what you are still seeing and whether you think there is any big step change in what you are likely to invest next year.

Sophie Zurquiyah: Thank you. Hi, Mick. The short answer is we are not seeing any inflection in the client's behaviour in our space. Arguably, our space has been the latest to pick up, and this is the reason why it is because it is kind of a longer term view. And everybody agrees that the longer term view is that there needs to be activity in preparing for increasing production down the road, right? Because the decline needs to be compensated by new reserves, and those reserves have to be found. And to find those new reserves, you need what we do.

The short answer is we are not seeing much of a difference. The oil price is still at a very comfortable level at that, let us call it above $70. We know our client's breakeven point is around that $30 barrel. And they can comfortably, at that level of oil price, pay dividends and invest in capital investment.

If you look at the difference between onshore/offshore, you see that there is a long-term offshore cycle unfolding, and I think it will continue. The momentum is there. It will continue unfolding.

Now at the margin, clients can always, shift a little bit instead of, let us say, increasing by five, maybe they go four or six. You might see some of that happening. But I do think that certainly all our clients that we are talking to, they are gearing up for increasing their exploration efforts.

And when I asked them why is it not translating yet necessarily in more sales from our side in multi-client data, which would be a good indicator, usually the response is that it just takes time to reshape the teams to get the machine back in motion.

Mick Pickup: Perfect. And then just I think you may have answered it. I think in your commentary there was a slippage in late sales from 3Q to 4Q and a slippage in SMO as well. What is just causing these slippages? Is this just general inertia in the system still?

Sophie Zurquiyah: In multi-client, I think it is just -

Jerome Serve: On the late sales, it is really a cut-off issue. The deal was signed 3rd October, so could not be booked in Q3. We are talking $15 million-plus deal. So it would have changed the picture on our after sales.

For SMO, it is not a cut off, it is more the delivery which will happen during the course of Q4 with the Q4 that, at least we see much stronger than what we have seen in Q3, reaching $100 million plus. So on par with the expectation we have for the full year and about big, unexpected event. We were pretty comfortable with the delivery of this Q4 for SMO.

Guillaume Delaby (Bernstein): Three quick question, if I may. The first one, I am going to come back to Mick's question on late sales in Q4. In addition, what is your feeling as of today regarding late sales in Q4?

Second question. You mentioned, Sophie, that your library is very well suited for, I think you mentioned five bid rounds in Brazil. Could you maybe try to quantify this potential opportunity?

And the third question is very different. I think your Chairman of the Board, Philippe Salle, has been appointed CEO of Atos. So is it reasonable to assume that a change of chairman in the coming weeks or coming months?

Sophie Zurquiyah: Okay. Thank you, Guillaume. Good evening and thanks for the great questions. In terms of after sales, I did mention, right? At this point in time, we have a bit more visibility than we normally have. Of course, it is hard to predict the clients behaviour at the end of the year.

The one thing that has dragged that not helped the after sales has been the lack of bid rounds and visible bid rounds. Now we have the Brazil one I mentioned, which is planned for 2025, and usually clients would want to buy the data ahead of the bid rounds. So that could be driving some sales in Q4.

But in general, I would say we feel equal or better than last year. And if you remember, last year there was not really such a spike for Q4. So I do feel like we have more visibility on the Q4 deals.

In terms of the library in Brazil, there is announced bid round in the pre-salt area, and the pre-salt area is where we have the majority of our Brazil data library, and there is a number of large blocks that are going to be available, and they are pretty large. So selling data. So it depends really in terms of the size of the price.

One client buying data on one block could be quite significant. So it depends on how many clients are going to go after it really. So it is hard to say, but it could be quite significant if there is an increasing interest as more and more clients interested.

And in terms of the third point, of course, this is something that is being reviewed by our Board. It is a bit early to give you an answer, but it is certainly something we are considering the different options and what we are privileging in the options is the continuity. So you will be hearing more in December.

Lukas Daul (Arctic Securities): You mentioned that there were not really any meaningful transfer fees hitting your numbers this quarter. But there are a couple of pending transactions among the oil companies that are expected to be closed over the next several quarters. So I was just wondering, is any of those involving transfer fees that would be meaningful to your late sales?

Sophie Zurquiyah: Hi, Luke, and thank you for your question. So I do not think I said there were no transfer fees because there has been some transfer fee, but not all of it. So as you mentioned, rightfully, there are more transactions that are pending. And actually I am thinking about two. One that is going to happen this year and another that, as it is quite public, is going to be moving into next year. And those that could be significant for us.

One, we know is happening, and the other one we will see if it does happen. And as always, there might be more surprises on the way.

Jerome Serve: I think what we said in Q2, which is last year close to zero transfer fee and in 2022 with a big Woodside-BHP transfer fee of 55, I mean, this year will be somewhere in the middle. And that is our expectation.

Lukas Daul: Okay. And then obviously you mentioned Brazil and there are some potential opportunities there with regard to the licensing rounds. But if you go around the other basins, can you pinpoint where you expect there would be increased interest over the next six to 12 months? Because this year has been relatively quiet.

Sophie Zurquiyah: Well, actually, we have three core basins. So we have Brazil, we have Norway, and we have Gulf of Mexico. Norway is always, as you know, been very active even through the downturn and COVID times, and we continue to see Norway as remaining very active. It has really sustained us this year and will continue moving forward.

The Gulf of Mexico remains an important area with clients. Actually, I was mentioning that more and more clients, a broader range of clients being interested in the Gulf of Mexico. If you remember, there was a stage in which a number of them exited because they felt it was risky. It required high CAPEX. And now we are seeing actually a number of clients come back to that to the Gulf of Mexico, which offers generally good conditions of investment.

So what I think we will continue to see good interest in the Gulf of Mexico. And of course, we mentioned that Laconia will continue to attract funding.

Now we are looking at positioning in other regions of the world, which are of interest for our clients. So we have invested in the past in Suriname. So we hope to see continued activity in Suriname. We are trying to position in Guyana. Guyana, there is an upcoming potential opportunity. We are looking at Uruguay. Uruguay is the conjugate of Namibia on the other side of the Atlantic margin. And so that is attracting interest.

We have discussion on the other side in Africa. We have discussion right now in Malaysia. So there is a number of select basins in which our clients are interested. And we are looking at making investments, partnering maybe with some of our partners to look at.

So it should be continued. We should continue to see activities. And as you see, the pre-funding and then the new project is relatively dynamic. And I think that trend will continue because clients are looking for new data.

Lukas Daul: Okay. And then just finally, with the vessel capacity agreement with Shearwater expiring in early next year, what are your thoughts on, how you are going to source vessel capacity going forward?

Sophie Zurquiyah: It is a good question. First of all, we are very pleased that this is ending. And as we have highlighted the numbers, it will be a good weight coming out of our financials. We have considered different options moving forward. Right now we think there is still overcapacity on the market. And we do not believe it would be very difficult to procure a vessel on the open market, but we have considered a different maybe model under which we would partner.

But by no means we would want to enter an onerous contract that in a similar way that we had in the past. So we will enjoy, I think, some freedom from vessels. We do see the market shifting from vessel streamer into nodes. So we want to have the freedom to invest our CAPEX into more of the node side.

If look at the basins, Gulf of Mexico is pretty much a nodes market. Brazil still has streamer opportunity in the new frontier basins of Brazil, but pre-salt eventually is going to move into nodes. Norway is not far from going into notes. So you will still have, of course, the more frontier area, perhaps, like I was mentioning, Malaysia, Surinam. Arguably Guyana might be moving to nodes as well as it is becoming more mature. So I do not know if it is a good thing to try and lock ourselves into a vessel streamer commitment.

Likas Daul: So your big picture view as the OBN market growing faster than the streamer market over the next 12 months?

Sophie Zurquiyah: Yes. If you look at growth, it certainly will continue to grow much faster as nodes are starting to be utilised in exploration. In the past, nodes were contained only for production purposes on small areas. Now, for example, with the example of Gulf of Mexico, the sparse nodes are being used for exploration purposes with excellent results.

And as that continues to deliver value, you will see more and more shifting towards nodes. Of course, the streamer offer a very cost effective and efficient way to acquire lots of data in new areas, so I think it will continue to have its space. And today, if you look at the amount of square kilometres acquired with streamers versus nodes, it is probably just simply talking about ten times more.

So there is still a lot more streamer data acquired than nodes data, but one is going down, the streamer data, and the other one is going up fast.

Likas Daul: Okay. That is interesting. And in general, if you were to compare an exploration project, where you deploy nodes as opposed to streamers, I know it would vary a lot. But what would you say in general would be the typical cost difference between those two approaches?

Sophie Zurquiyah: So in order to be able to look at the price difference, you have to look at the node density, which is what affects the nodes cost. So the Gulf of Mexico, for example, which is a sparse node. So let us say maybe a few kilometres apart. Then you would be talking about similar cost to a wide azimuth. Wide azimuth is when you have two vessels to streamer vessel. So that would be equivalent, just to give you a range.

So actually it is becoming cost effective in those complex subsurface areas which have productive reservoirs.

Baptiste Lebacq (ODDO BHF): Three questions from my side. The first one is related to the new UK tax regime. What could be the impact for you, if there is? Second one is dedicated to SMO and the fact that new businesses is increasing. Will you need one-time in the future to put, let us say, specific CAPEX for this type of products versus let us say standard products for oil and gas?

And the third one is the depletion rate. Speaking with our clients, do you see some change regarding the depletion rate?

Sophie Zurquiyah: Okay. Thank you, Baptiste, and good evening. I will take question two and three while giving time to Jerome to look at question one.

But in terms of new businesses for SMO, they are growing and they are continuing to grow every year. Now, what makes them as a percentage of the total higher is actually the core parts of SMO was lower this quarter. So that is why we ended up with this 31%.

But the new businesses that we are looking for in sensing and monitoring were more in the service side. So we do not expect that there will be very capital intensive. But if your question is do you need new products and technology? Definitely, we do. And we have already made that investment.

So we will continue to carve out parts of our R&D budget. But I would expect it is going to be a small portion of it for specifically to continue adapting our solutions for those markets. And for example, we have some of our equipment direct application. So for example, the sensors that we use for oil and gas, you can use them for geothermal. They are the same. You can use them for carbon sequestration.

So some of them is exactly the same equipment if you want or the same systems. Others are going to be different. We packaged already solutions for the infrastructure monitoring. So that is done. Of course, we will continue evolving the solution but that will be low investment.

Then we have some defence solutions which are again very close to our core technology. I would expect very little investment. So in general, I do not think you should expect a large investment, particularly visible or large investment on the SMO side, to continue growing that market. The effort will be more on the business development side trying to land partnerships.

Jerome Serve: Back to your first question on the UK tax regime. First, the UK is not the biggest region for us. I mean, looking at either late sales or Geoscience or SMO. And it is true that, I mean, all the recent tax policies in the UK has been quite unfriendly for oil and gas. So not favouring very much in comparison with Norway, for example.

But I think the budget from yesterday, from what I read, was less worse than what people were thinking. And there is still this allowance for CAPEX, which everybody was fearing that they will be removed. And it is not.

But I mean, that is really a peculiarity. But overall for the region, the UK and overall, the impact on the UK change regime is very minimal.

Sophie Zurquiyah: I agree with that. And the third question on depletion rates, we are not hearing anything different. So similar depletion rate single-digit depending on the companies 5%, 7%.

Of course, depletion rates in unconventional North America are going to be much higher. But I think we are still on there. And actually, if anything, the clients are looking to bring in technologies to combat that. But natural, I would say similar 5% to 7% overall on average.

Well, great. Thank you very much. Appreciate the questions, and I look forward to engaging with you in the upcoming weeks on one to ones and with investors. So thank you very much for your attention.

Jerome Serve: Thank you, indeed.

Sophie Zurquiyah: Bye.

[END OF TRANSCRIPT]